CANADIAN TRADE POLICY FOR THE 1980S: AN ONTARIO PERSPECTIVE

ONTARIO

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AN ONTARIO PERSPECTIVE

Ministry of
Industry and Trade

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EXECUTIVE SUMMARY

Principal Elements of a Canadian Strategy

Foreign trade accounts for more than one-quarter of Canadian production of goods and services. In Ontario's case 34 percent of the province's wealth depends on exports. During the next decade, increased exports of manufactured goods and services will be crucial to improved economic performance.

The environment facing Canadian exports has become more *competitive* as a result of the world recession, and will remain very competitive over the decade. Other changes include a *shift of markets* to the developing world coupled with the increased importance of trade in high technology products and services.

It is becoming increasingly obvious, however, that Canada has not clearly defined its role in this changing environment and that we are not as well positioned as we should be to meet the challenges of the coming decade.

Capturing a larger share of world trade requires an *outward looking* strategy geared to maximizing new export opportunities. Principal elements should include:

- resisting protectionist forces and stressing open markets;
- dismantling non-tariff barriers facing Canadian processed, agricultural and manufactured products abroad;
- strengthening our existing trading relationships and improving our ability to influence policy decisions of our major trading partners, particularly the United States;
- aggressively exploiting the potential for export sales to growth areas such as the Pacific Rim and Latin America;
- providing Canadian exporters with competitive program support;
- stressing resource upgrading, tradeable services and world leadership in specific technologies.

Recent Canadian Performance

Canadian merchandise exports exceeded imports by a record-setting $6.6 billion in 1981. However, this obscures some disquieting facts and trends:

- Canada's share of international trade has declined steadily over time.
- Canada relies on a narrow base of raw or semi-processed resources (e.g. wheat, metal and forest products) for its positive export earnings. This contrasts with deficits in areas such as auto parts, computers, industrial machinery and business services that incorporate a high technology of skilled labour component.
- Structural impediments such as small size or parent-subsidiary links inhibit efforts by many firms to develop markets abroad.
- After some improvement in the late seventies, Canada once again finds its competitive position eroding relative to its major trading partners.

The adverse impact of structural and macro-economic forces has been reinforced by federal policy shortcomings, such as the failure to follow through with concrete actions to implement such diversification strategies as the "Third Option," or to develop adequate alternative policies.

The International Framework

An *open multilateral trading system* remains essential to Canada's future. Canada must continue to support this objective, not only via the GATT but also through other organizations such as the OECD and through the quadrilateral trade ministers' meetings.

The 1982 GATT Ministerial will provide an opportunity to discuss a range of topics crucial to Canadian interests, including *safeguard procedures, dispute settlement mechanisms, trade in services, investment requirements, government procurement and participation of the LDCs* in the world trade system.

However, while the GATT Ministerial provides an opportunity to address a wide range of substantive issues, failure to reach agreement at this particular time should not deter us from seeking to strengthen the open trading system.

With respect to the international trading system, Ontario makes the following specific recommendations:

- Safeguard procedures under GATT Article XIX should be clarified and tightened to increase their effectiveness and usage. New institutional mechanisms should be established within the GATT to ensure that action under a new safeguard code is adequately scrutinized and disciplined.
- Dispute settlement mechanisms should be strengthened to ensure prompt compliance and the elimination of practices contrary to the GATT, such as the U.S. DISC legislation.
- Any examination of investment related performance requirements should be linked to a review of the impact of multinational behaviour on the industrial structure of host countries and to the issue of extraterritoriality.
- Attention should be given to defining new areas for global liberalization in fields such as trade in services and high technology, which are not at present covered by GATT.
- Extension of the GATT procurement code to areas under provincial jurisdiction must involve full consultation with the provinces and be balanced by equivalent concessions from Canadian trade partners.

A Fair Trade Framework

Ontario believes that a freer trade environment cannot be achieved without strong support for *fair trade.* Canada's commitment to expanded trade in the multilateral trade system, therefore, must be fully reflected in our own import policy regime and adjustment programs. Without *protection against disruptive imports* in all sectors, including services and capital goods, and without *adequate adjustment assistance,* Canadian industry will be unable to realize the benefits of world trade expansion and will withdraw its support for further efforts in this direction.

With respect to Canadian import legislation, Ontario supports the need for measures to strengthen existing procedures including:

- the streamlining of unfair trade practices and safeguard procedures;
- consideration of the special problems created by unfair trade practices for the capital goods sector;
- retaliatory powers against foreign practices that impede Canadian exports or violate trade agreements;
- the provision of adequate specialized human and other resources to ensure efficient administration of the legislation.

Adjustment Programs

The provision of adequate and timely *adjustment assistance* is essential to the widespread realization of the benefits of trade liberalization. Supportive measures should include the creation of a *positive business climate, specific steps to promote innovation and productivity, regulatory efficiency and greater manpower training and mobility.*

The federal government should re-examine its industrial assistance programs to ensure that these meet the needs of communities, businesses and employees located outside traditional recipient areas for regional development grants.

Strengthening Bilateral Relations

An important element in expanding exports will be an emphasis on *improving Canada's commercial image in international markets.* The federal government must actively strive to replace the image of Canada abroad as an exporter of crude and semi-processed resources with an image that stresses our capabilities as producers of high-quality, technologically sophisticated products. This is the role Canada must strive to achieve in the world economy, and other countries should be educated to this reality.

Canada should seek the development of new mechanisms to help ease and diffuse tensions with trade partners. The idea of a number of *Canada-U.S. tripartite committees,* involving government, business and labour participants and aimed at fostering broader awareness of the unique nature of the Canada-U.S. relationship, should be pursued.

Canada and its trading partners, particularly the United States, should examine the potential for agreements to expand trade and co-operation in specific industry sectors such as urban transit.

Canada should take advantage of the potential afforded by other markets, including Europe, Japan and the developing countries, for increased trade and investment links.

Program Support

Expanded foreign opportunities must be reflected in concrete programs to promote the development and production of *exportable products,* build *marketing expertise* and provide Canadian firms with the necessary *support services* required for a successful trade performance. To this end, Ontario recommends that:

- an effective information system on world trade opportunites and Canadian capabilities be established. The federal and provincial governments and the private sector could develop, exchange and share this information.
- steps be taken to promote the design and development of new products for the world marketplace. Proposals include enhanced R & D incentives coupled with the establishment of an autonomous National Institute of Design.
- domestic subsidiaries of foreign companies be actively encouraged to pursue Global Product Mandating strategies for their Canadian operations.
- appropriate funding and ongoing priority be given to the Trade Commissioner Service, and the commercial emphasis be maintained.
- the PEMD program be reviewed to maximize accessibility and to ensure its usefulness for small and innovative exporters and for entry into difficult markets such as Japan.

- selective measures be implemented to promote the marketing of Canadian products, including a national program of shared cost export managers aimed at small firms and the establishment of a Canadian International Corporation, to promote increased Canadian participation in foreign capital projects.
- the federal government review the tax structure to ensure that it does not impede expansion into markets abroad.
- Canadian exporters enjoy access to fully competitive export financing with respect to rates, coverage and terms.
- means be developed to ensure that the federal and provincial governments and business co-operate and combine their skills and resources to succeed in international markets.

Federal-Provincial Relations

A priority for Ontario is the need for effective federal-provincial consultation and co-operation on trade policy issues. The expansion of trade policy concerns into areas of provincial interest and jurisdiction, and the need to co-ordinate our trade policy within a broad economic development context, mean that present institutional mechanisms must be expanded to allow the provinces to play a more active role. Federal-provincial channels for consultation, decision-making and program implementation must, therefore, be strengthened to ensure that policies be developed that serve the broad range of Canadian interests.

The recent federal-provincial trade ministers' meeting should be institutionalized and made a regular feature of federal-provincial dialogue on trade policy issues.

INTRODUCTION

Over the past two decades, the volume of world trade has soared dramatically, growing 7 percent annually. The need to aggressively pursue foreign markets is one that no country, certainly not one as dependent on international commerce as Canada, can afford to ignore. Premier Davis stressed this point earlier this year when he stated:

> "The health of the Canadian economy depends on a successful export performance. Over one quarter of Canada's GNP is directly accounted for by exports."*

While vital to the economic prosperity and security of all Canadians, a co-ordinated set of policies to promote exports is of particular importance to Ontario, which derives 34 percent of its wealth from the export of goods and services. Ontario's merchandise exports amounted to almost $4,000 per capita in 1981 and accounted for 40 percent of total Canadian merchandise shipments abroad. Efforts to improve Canada's trade performance have far-reaching implications for a range of provincial programs in such crucial areas as job creation, regional development and technological growth. There can be no doubt that the trade policy framework will be one of the most important factors in Canada's, and Ontario's, economic performance in the decade ahead. Consequently, the Ontario Ministry of Industry and Trade welcomes the opportunity to input its views into the *Trade Policy for the 80s* document currently under preparation by the federal government, and hopes that adequate weight will be placed on these views in the formulation of Canadian trade policy.

During the two full-employment decades ending in the mid-1970s, the central focus of trade policy in most industrialized countries was directed toward balancing international payments, helping to pay for imports and maximizing relative advantages. However, when severe inflation, economic recession and persistent high unemployment emerged as major economic trends in the late 1970s, job creation began increasingly to determine political priorities, including trade policy. Facing stagnating domestic markets, governments have begun to seek export markets more aggressively, with competition manifested most strongly in the industrial sectors, where unemployment is highest and employment benefits most visible. Ontario is particularly affected by these developments, given the importance of its manufacturing sector and its high dependence on manufactured exports.

The global environment in which Canadian industry competes is also undergoing other far-reaching changes with important ramifications for Canadian trade policy. The sources of competitive advantage in international trade are changing, the content of trade is changing and the direction of trade is changing. Increasingly, the ability to apply new technologies is a determining factor in export success. Trade in services is growing steadily as a proportion of world trade and as a focus of policy attention. Similarly, shifts in global population and economic dynamism have led to new market potential.

These changes create special opportunities for Canada and special problems. Those countries that rapidly adapt their industrial

*William G. Davis, A Blueprint for Economic Recovery p. 20.

structures and focus production in new "cutting-edge" technologies stand to benefit most from these developments. But this adaptation is not easy. The pressures on trade policy in most industrialized economies from domestic unemployment and slow growth ensure that competition for new markets will be intense. Moreover, our record leaves little ground for complacency. Compared with countries like Japan, the United States and West Germany, Canada has enjoyed very limited success in penetrating new high-growth markets, specifically in the developing countries.

The stakes are so large that we have few alternatives but to respond to the challenge. Success will be dependent on Canada's ability to formulate and execute a trade policy that reflects, and is integrated with, a forward-looking and outward-looking domestic development strategy. The emphasis on resource-led growth in the federal government's *Statement on Economic Development for Canada in the 1980s* is clearly not adequate. The manufacturing sector cannot be given a secondary role if Canada is to maintain and expand its industrial base and provide the number and range of employment opportunities that Canadians in all regions of the country expect. Maximizing spin-offs from mega-projects, while desirable, is not in itself a sufficient basis for economic development in Canada. A successful industrial and regional development strategy will be one that utilizes the broad range of Canada's strengths, advantages and resources to build a diversified industrial base.

From Ontario's point of view, there are three anchors on which Canada's future economic development and international competitiveness should be based:

i) obtaining a higher value added from our resource base;

ii) developing world leading capability in selected high technology sectors;

iii) achieving a larger share of the world trade in services.

This process will be one of internationalization of the Canadian economy, resulting in both improved export performance and recapturing of the domestic market. To ensure that this takes place and that Canada is positioned to take advantage of the growth sectors and new markets of the 1980s will require a Canadian development strategy that stresses production and exports in technologically advanced goods and services. To be effective, this development strategy must be supported by a trade policy that integrally includes five major elements:

- *First,* Canada must recognize that the pressures of recession, inflation and unemployment have led to calls for and moves toward increased protectionism. We must make every effort to ensure that world trade is expanded rather than limited.
- *Second,* Canada must continue to press for a fair and freer trade environment. In particular, we must push for the removal of unfair restrictions against Canadian goods, especially in Japan and the European Community.
- *Third,* Canada must rebuild its relationships with its major trading partners, which have been damaged by tensions caused by federal policies such as FIRA and the NEP.
- *Fourth,* Canada must expand and diversify its trading relationships by pursuing opportunities in dynamic growth areas of the world economy, including Latin America and the Pacific Rim.
- *Fifth,* Canada must ensure that Canadian exporters have access to the same level of export services that their competitors enjoy.

CANADA'S RECENT TRADE PERFORMANCE

II

In 1981, Canada exported goods and services worth $99 billion. Proportionally, Canada ships a larger volume of its production abroad than such leading industrial countries as the United States, West Germany and Japan, contributing to a pattern of merchandise trade surpluses that will almost certainly repeat itself this year. Yet despite these successes, and despite the central role that exports play in our economy, Canada has not taken the necessary steps to ensure that these exports expand and adapt to the global realities of the 1980s. Because Canada has failed to pursue heightened competitiveness in its traditional export sectors and to broaden its export base into new areas of potential and opportunity, we are not in as strong a position to use exports as a basis for economic growth in the coming decade as we should be. This is reflected in the following facts:

- Despite Canada's strong trade performance, our share of free world exports has dropped over the past decade—from 5.9 percent to 3.9 percent between 1970 and 1979.
- To a disturbing extent, Canadian export earnings stem from a small number of raw and semi-processed resources, while the trade deficit in manufacturers and services is large and growing larger. As well, the number of individual sectors with growing deficits is about twice that of sectors showing an improving trade balance. These facts underline the extent to which our trade performance relies on an overly narrow base.
- The geographic accessibility of the U.S. market has benefitted Canadian exporters, but our excessive dependence on this market has meant Canada lags behind other industrialized countries in penetrating high growth markets elsewhere, particularly the developing countries. Canada sends less than 10 percent of its exports to these nations.
- The current deterioration in Canada's cost structure threatens the competitive position of a number of traditional industries, such as footwear and auto parts. Sensitivity to cost competitiveness is critical for Canada given the large proportion of our exports, including standardized manufactured products, which compete on the basis of price considerations.
- As with exports, Canadian direct investment abroad is concentrated in the United States, and is undertaken by a few large multi-nationals. These factors result in a relatively minor Canadian presence abroad.
- Many firms in Canada continue to lack an independent export marketing capability due to the fact that a substantial share of Canadian trade results from sales between parent companies and subsidiaries.
- The present recession has left Canadian industry weakened and poorly prepared to take full advantage of any upswing in world demand. The survival oriented tactics that firms have been forced to adopt in the face of severe over-leveraging and a desperate need to cut costs will not lay the basis for expansion and growth in exports. At the same time, the management styles of many Canadian

businesses have not adjusted to the new competitive realities of the eighties, but remain geared to the gravy days of post-war growth.

A number of policy statements and undertakings by the federal government during the 1970s displayed a recognition of changing global realities. The 1973 Resource Upgrading policy, the diversification strategy of the Third Option paper, and finally the significant tariff reductions undertaken under the MTN all demonstrate an awareness of where the Canadian economy should be headed. *But concrete policy and program actions designed to equip the Canadian economy to move forward either were not forthcoming or were inadequate.* Without this follow-through, a Canadian capability for export growth and economic expansion will not be built. And to make this situation worse, in recent years the belief that Canada's economy can be based on resource development alone has been resurrected.

III

THE INTERNATIONAL FRAMEWORK

Since World War II Canada has benefitted in growth and prosperity from the dramatic expansion of world trade. During the sixties and seventies the ratio of trade to GNP in the industrial countries doubled —from about 17 percent to 34 percent, and grew from 24 percent to 39 percent in the non-oil developing countries. This expansion was facilitated by the multilateral economic institutions created after World War II.

There is no doubt that a continued expansion of world trade is extremely important to Canada's future economic growth. However, the current recessionary environment and the resulting intensification of international competition have caused severe strains in the international trading environment. Slow growth has made the process of structural adjustment particularly painful, and pressures have grown within national economies to insulate against outside forces, to slow the adjustment process and protect against foreign competition. While most governments realize that such restrictions are ultimately inimicable to their own interests, the short term domestic pressures are difficult to resist. The threat of a significant world economic contraction is very real, and the very negative consequences for Canada in such an occurrence, obvious.

The maintenance of an open multilateral trading system is a front line defense against this tendency toward protectionism. Canada must continue to give strong support to this system both in international fora and in its own domestic import regime. This must be the basic underlying element in Canada's trade policy. The important role Canada can potentially play in seeking agreement among our trading partners on solutions to global problems should not be underestimated.

The Institutional Mechanisms

Canada's efforts to defend the open multilateral trading system and to seek an expansion of world trade should not be limited to official consultations within GATT. Opportunities are afforded by other international organizations and fora to pursue these goals. The quadrilateral trade discussions involving Canada, the United States, the European Community and Japan could become an important focal point for encouraging a more aggressive defense of an open multilateral system. Increasingly, agreement is becoming difficult to achieve at the GATT level; however, if the major players in the world economy could achieve a consensus and a commitment, no other country, no matter how determined to go its own way, would be large enough to undermine this momentum. Ontario, therefore, recommends that:

- the quadrilateral trade discussions between Canada, the United States, the European Community and Japan establish a concrete work program and adopt a decision-making function, aimed at establishing agreement on issues related to the maintenance of an open multilateral trading system. This may involve commitments to multilateral solutions of some major sectoral problems such as steel and autos.

New avenues for discussion and co-operation also exist in the expansion of activities or organizations such as the OECD. Ontario recommends that:

- the OECD be utilized to explore new avenues of co-operation for liberalization of trade among developed countries, and to expand its work in such areas as services and technology, which are beyond the current mandate of the GATT.

Canada must also be prepared to adopt a flexible approach toward the issue of relations between the developed and developing worlds. The recognition that a significant expansion of world trade will be difficult to achieve unless an agreement on structures and procedures can be achieved between these two groups must be the basis for a broad range of discussion and negotiation. Efforts should be made to encourage the LDCs to undertake serious discussions among themselves and with the developed countries. In this way, issues and priorities will be defined that will allow these countries to move into the GATT and other multilateral fora at a gradual but steady pace. To achieve this goal, it will be important to broaden the range of discussion to as many fora as possible, and to facilitate interaction and communication between the various bodies involved. Ontario recommends that:

- UNCTAD be encouraged to play an active role in the examination of the impact of various multilateral trade proposals on the interests of the developing countries and their relations with the developed world. Joint machinery should be considered to link UNCTAD, OECD and other international organizations with the GATT, to discuss protectionism, structural adjustment and other issues.

The goal of freer trade is multidimensional, and as such there is no single answer or single focus for its achievement. Rather, Canada should encourage steps to utilize the strengths of various organizations in an integrated, co-ordinated manner.

The GATT Ministerial

The 1982 GATT Ministerial provides a critical opportunity to demonstrate commitment to the multilateral trading system and to begin to deal with a number of contentious trade issues. The emergence of a political will on the part of the signatories to press ahead multilaterally on these difficult trade issues is the key challenge presented by the Ministerial meeting. If this hurdle can be successfully surmounted, the deterioration of international trade relations toward nationalistic, protectionist modes will be less likely. Even if agreement is not reached on some of the following issues, which we hope will appear as elements on the agenda for the GATT Ministerial, we should continue to press for early discussion and resolution.

i) Safeguards

The increasing tendency of governments to implement trade restrictions against fair but injurious imports outside the framework of Article XIX is often cited as evidence that the GATT system is breaking down. It is critical, therefore, that Article XIX be rendered more relevant and more operable. The GATT Ministerial presents the opportunity to start discussions on the safeguard issue again. If this opportunity is missed, it may be some time before a groundswell of interest on the issue can again be productively channelled toward seeking multilateral agreement on a number of key questions. Ontario recommends that:

- Canada should throw its firm support behind initiatives to reopen international examination and negotiation of Article XIX.

A number of countries are pressing for changes to Article XIX to allow for selective action, in the belief that this move away from the MFN principle will encourage countries to take action within the GATT. It seems apparent, however, that what is required at this stage is an improvement of existing procedures to allow the present MFN basis of Article XIX to function effectively. Once the criteria for Article XIX action have been adequately clarified, and effective surveillance established, the GATT may then want to look at the issue of selectivity if this is still considered necessary. But it is important that the existing mechanisms be well established and functioning before this alteration of basic principles be undertaken. Ontario, therefore, recommends that:

- there be further clarification of the criteria and conditions under which Article XIX action can be taken on an MFN basis;
- new institutional mechanisms within GATT be established to ensure that action under a safeguard code is adequately scrutinized and disciplined. Some type of ongoing Article XIX Surveillance Committee is necessary to provide a multilateral basis for safeguard action.

The issue of compensation and retaliation must also be dealt with in the discussions on safeguards. The broad structural adjustments that will occur throughout the eighties necessitate internationally accepted rules regarding safeguard measures. It is Ontario's view that if safeguard action under Article XIX is to be used as a mechanism of adjustment, rather than protection, compensation or retaliation should not be necessary. This modification will be feasible under a renegotiated Article XIX code that clarifies and disciplines permissible safeguard action criteria and conditions. Under the current system, the threat of virtually automatic compensation or retaliation acts as a deterrent to the undertaking of safeguard action under the GATT, rather than as a discipline against measures taken outside GATT prescribed measures. Ontario, therefore, recommends that:

- only in cases where it is established that a safeguard action does not meet the criteria of Article XIX would it then be permissible for an adversely affected country to take retaliatory action to restore a previous balance of concessions.

Finally, the Code needs to be tightened to improve the effectiveness of the action and reduce the potential for safeguard actions to be taken as a domestic protectionist measure. Ontario recommends that:

- the requirement that increased imports occur as a result of unforeseen developments accruing to GATT concessions be re-examined to establish whether in fact this limiting criterion is necessary or appropriate.
- specific time limits on safeguard measures and the associated delineation of fast track and renewal provisions be included in a new article XIX to ensure that emergency action will be temporary.
- safeguard measures be applied only up to the level of injury, and that such restraint be applied on a declining basis to the end of the time limit period, to ensure that imports will not be unjustifiably restrained beyond the level associated with injury, and to encourage industry rationalization and adjustment.

ii) The Concept of Injury

The various concepts of injury both in relation to unfair trade practices, as in the Antidumping and Countervailing Codes, and to disruptive trade, as in the Safeguards Code, have never been defined to GATT signatories. It is, therefore, left primarily to domestic legislation and practice to give interpretation to these key concepts. In a number of countries, moreover, national legislation is not sufficiently consistent with the GATT codes, thus creating disparities between levels of import protection afforded to domestic industry in different countries.

In order to encourage consistent, multilaterally accepted interpretations of key GATT terms and concepts and to ensure that these emerge by way of negotiation and agreement between signatories, rather than primarily by the weight of U.S. practice, Canada should be seeking further clarification of these codes at the multilateral level. With such a dependence on exports, Canada has a particular interest in ensuring that the threshold of pain, the criteria for material, serious and regional injury and the required causal link between imports and injury are not overly loose. Ontario, therefore, recommends that:

- agreement be sought to review and clarify definitions of injury in existing GATT codes with a view to laying the basis for more consistent multilateral interpretations of these codes.

iii) Dispute Settlement

The ability of the GATT system to establish appropriate mechanisms and procedures for dispute settlement between signatories is a central element of the system and the basis of much of its legitimacy and credibility. This credibility is undermined if dispute settlement procedures are not adhered to and results of these procedures not respected. Ontario, therefore, recommends that:

- Canada commit itself to *support and respect the results that emerge from the GATT dispute settlement procedures* and firmly encourage similar adherence by other signatories, such as the United States, which continues to try to negotiate out of having to accept the fact that DISC is a breach of its GATT most-favoured-nation obligations.

Canada should also come forward with some constructive criticism of GATT dispute settlement mechanisms (notifications, consultation, surveillance, dispute settlement) with a view to encouraging *review and improvement* of certain aspects of the mechanisms. This would include proposals for examination of such issues as delays in adopting terms of reference of panels, delays in forming panels, time limits and enforcement of decisions.

iv) Investment

Trade related issues emerging from international investment will be coming increasingly under scrutiny in the GATT. This is largely the result of pressure from the United States, which is pushing for an early opening of discussions on this issue with particular attention to right of establishment and performance requirements.

Because FIRA practises will likely be examined in any such discussion, Canada's interest in the issue is apparent. In this context, it is important that Canada raise its very real concern about the issue of extraterritoriality, and also make a strong case for the validity of domestic development strategies that encourage adoption of global product mandates or specialized missions by foreign subsidiaries.

The ability for foreign governments to circumscribe or direct the activity of subsidiaries located in other countries seriously undermines the sovereignty of the country where this occurs and the ability of

that country to pursue its national goals. This issue is particularly important to Canada because of the large foreign owned component of its economy. It is also important that national governments have the authority to take steps to ensure the viability and strength of their economies. When governments encourage global product mandating or specialized production, this is often a sensible survival strategy for the firm, and one that could minimize layoffs and other disruptions in the future. The behaviour of multinational corporations and in particular their corporate strategies are a central element in the economy of a country like Canada, and we, therefore, must have the leverage to influence their activities. Ontario recommends that:

- a work program on the topic of investment and right of establishment be set up only on the condition that this includes examination of the issues of extraterritoriality and the behaviour of MNEs and the importance of such national strategies as global product mandating in influencing that behaviour.

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v) Services

While Canada should not oppose proposals to initiate international discussion on the issue of services trade, there is still much work to be done to establish present and future Canadian interests in this area. For Ontario, an increasing share of world trade in services, particularly in services related to capital projects, is a fundamental element in our economic development strategy. Therefore, it is critical that Canada be fully aware of its interests before international negotiations are considered.

Given the fundamental differences between various service sectors, consideration should be given to the appropriateness of a sectoral approach in international examination of trade in services, rather than the horizontal approach taken for merchandise trade. As well, it may be discovered that, initially, more progress can be made in bilateral discussions than in waiting for the launching of comprehensive multilateral negotiations. Ontario recommends that:

- Canada should consider giving support to establishment of a work program on trade in services that would explore in more detail a number of key issues, including the implications of extending existing GATT codes to cover services sectors or of introducing new codes.

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vi) Technology and Trade

As in the investment issue, the United States is behind moves to put high technology on the international trade policy agenda for the eighties. The United States has not clearly defined how it intends to address the issue of high technology trade and the American proposal in this regard should be considered closely. It is clear that the technology policies of governments can alter the direction of technological change and thereby profoundly affect patterns of comparative advantage. It is in this context that the technology policy question has been identified as relevant to international commercial policy. But the critical issue in any international high technology trade discussions will be to distinguish between technology policies that are primarily the prerogative of national governments and those that have significant and direct trade effects and might, therefore, be made the subject of international consultation, guidelines or rules.

Given that a great deal of work remains to be done to determine how high technology relates to trade, it is clearly premature to initiate discussions on this issue in a GATT forum. At the present time the OECD remains a more appropriate forum for the type of exploratory work now being carried out. Ontario recommends that:

- the issue of high technology is not appropriate at this time as a GATT issue and that Canada support its continued examination within the OECD at present, to allow for further elaboration of its major elements before it is discussed in the GATT.

vii) Graduation

The preferential arrangements and GATT rights enjoyed by many countries of the developing world, while legitimate and desirable in some circumstances, are actually encouraging trade dislocations and inequity in the balance of trade concessions in a number of cases where newly industrialized countries have launched themselves as important and successful exporters in the international trading system. Ontario is particularly vulnerable in a number of sectors to adverse effects of import surges from these countries. Ontario, therefore, recommends that:

- emphasis be placed, in upcoming GATT discussions, on the participation of the newly industrializing countries in the world economy and on the need to ensure that growing access for their exports into developed country markets increasingly be conditional on their acceptance of GATT obligations.

viii) Procurement

Procurement by governments is often heaviest in those sectors at the leading edge of technological developments, such as telecommunications, transportation and defense. Because of Ontario's strong capabilities in these fields and our desire to increase exports of high technology goods, access to international procurement markets should be a central element of a Canadian export strategy. Ontario recommends that:

- Canada strongly support the extension and broadening of the GATT procurement code. However, any extension of the code to provincial entities must not be taken prior to full and extensive federal-provincial consultation and provincial consent. It is essential that *any extension of the code that involves provincial procurement commitments is fully balanced by real and reciprocal concessions from our trading partners.*

ix) Access for Processed Resource Products

A wide variety of opportunities exists for Canada to use its resource base for expanded exports of upgraded and manufactured goods. At the simplest level this involves upgrading resources to the next level of processing. However, tariff escalation in consumer markets often provides a deterrent to achieving this next step in Canada.

Beyond this, a much more complex set of non-tariff considerations makes it difficult to achieve higher value added in downstream activity across a host of products, even where energy and transportation conditions are favourable. The potential should exist, but often does not, to export copper as copper wire, petrochemicals as plastic auto parts, aluminum as engine blocks, asbestos as brake pads—to name a few examples. Ontario, therefore, recommends that:

- a major agenda item at the GATT Ministerial should be the issue of improved access for processed resource products. Canada should strive for agreement in principle to this as an important global objective and seek at the very least a work program that explores this issue in detail.

A FAIR TRADE FRAMEWORK

IV

As was made clear during the most recent GATT negotiations, Ontario supports a more open environment for international commerce. However, steps to promote trade must be accompanied by the assurance that efforts take place in a manner that respects principles of fairness and equity. The development of effective Canadian legislation and procedures to protect against disruptive imports, provide adjustment assistance, and ensure that other countries live up to their agreements to provide access for Canadian products is essential to the reality of a fair trade environment.

Almost two years ago, the federal Department of Finance unveiled proposals for overhauling Canadian import legislation. Ontario attaches a high level of importance to this process.

While the 1980s will be a period of substantial new opportunities for Canadian industry, there will be an increasing need to adapt to ongoing changes in the structure of the world's economy. Canadian firms must be provided with protection against the unfair or injurious practices of foreign competitors if they are to enjoy the stable domestic market base needed to support substantial new commitments to world-scale marketing, research and development and production.

Ontario accounts for 50 percent of Canadian manufacturing jobs. In addition, the business services industries represent a very important and growing source of economic activity and employment in the province. Ontario residents account for more than 38 percent of all consumption in Canada.

The cost of the Canadian government's failure to put into place an effective set of import policies and adjustment programs would be particularly high for Ontario because a substantial proportion of activity in those sectors most sensitive to imports is located in the province: auto parts production, certain business services, clothing and textiles production and petrochemicals.

In addition, the province has substantial activity in the durable goods sector, such as heavy electrical equipment and resource machinery. Dumping and subsidization present a particular problem for producers in these industries.

The vulnerability of Ontario firms to disruptive and unfair import practices is increased by the large volume of trade in which the province engages. In 1980, total provincial imports from other countries amounted to $43 billion, 35 percent of the provincial product. For a number of Ontario industries, such as the machinery sector, the proportion of the domestic Canadian market supplied by imports from abroad exceeds 50 percent.

Last fall, the ministry made a submission to the Mackasey Subcommittee outlining a number of suggestions for improving Canadian import measures. These include:

- a streamlining of unfair trade practices and safeguard procedures;
- countervail, antidumping, safeguard and retaliatory procedures that apply equally to trade in goods and services;
- serious consideration to be given to whether Canada should equip itself with a "catch-all" provision against unfair imports to deal with future developments not covered under existing legislation;

- safeguard measures for longer term import problems, which include policies of adjustment assistance and which are backed up with adequate program and financial support. Adjustment assistance policies should emphasize industry modernization and rationalization where appropriate;
- introduction of special measures to deal with the problems created by unfair imports in the capital goods sector. These include initiation of antidumping or countervail procedures on the basis of an irrevocable tender and preventing the final user from avoiding liability for duties;
- retaliatory powers against restrictive foreign practices that are as wide as necessary and that set out no surtax ceiling for retaliatory purposes;
- the provision of adequate human and other resources to the administration of the new legislation.

The Subcommittee has recently released its report, based on the results of its hearings, and has endorsed some but not all of these suggestions.

- It is the Ontario view that Canada's import policy legislation must be as comprehensive as possible if the goal of a fair trade environment for its business community is to be achieved.
- Ontario hopes that the federal government will move swiftly to meet the needs of Canadian industry in this important area.
- In particular, Ontario urges the federal government to take action in the capital goods sector, and feels the decision to refer the issue to another committee for further study is an unnecessary delay.

ADJUSTMENT PROGRAMS

V

Over the past 25 years, important shifts have taken place in the pattern of industry activity in Canada. Some sectors, such as technology intensive industries, have experienced rapidly increasing employment while the work force in other industrial sectors has declined. Significant changes have also taken place in the geographic pattern of industrial activity and the occupational structure of the labour force.

Structural changes can take place for a variety of reasons. Technological developments resulting in the emergence of new process and product represent a powerful force reshaping the economy. Higher energy prices have had an important bearing on the types of process and equipment used in many industries. Trade represents another source of pressure for structural change. The opening of new markets abroad creates expanded opportunities in some areas. By contrast, competition from imports may limit opportunities in others.

In any modern economy, buffeted by pressures from a variety of sources, the ability to adapt smoothly and to respond to the opportunities associated with transformations in markets and production processes is highly desirable. Government policies can play an important role in determining the pace of change and its social implications, both by inhibiting adaptation and by encouraging it. The design and implementation of positive, forward-looking policies to promote institutional flexibility are central elements of the governmental response.

Environmental and institutional mechanisms to promote adjustment can not only act as a means of expediting the transfer of resources from contracting to expanding areas but also can minimize the disruption for individuals or communities that could be adversely affected by structural changes.

There is an important linkage between macro-economic stability and flexibility at the micro-economic level. Markets can best adjust positively to continuous changes in demand, in the supply of inputs and in production technology *if market participants can plan and operate in a context of stable and predictable political and social conditions.* In a framework of well-established political ground rules and of steady social trends, individual investors and workers can more easily develop and preserve a medium- to long-term outlook that induces them to accept the short-term costs of structural adjustment for the sake of long-term gains.

In many respects, the disparity between the ideal climate for adjustment and the climate expected to prevail in the 1980s could not be more striking. Since 1979, the Canadian and international economies have undergone two major cyclical contractions. High interest rates and high inflation have severely eroded confidence. Greatly increased levels of uncertainty, compared to the stable growth levels of the fifties and sixties, have severely inhibited the capacity of many businesses to anticipate and respond to developments affecting them. In view of the need to promote stable adjustment in this difficult environment, Ontario recommends that:

- the first priority of federal macro-economic policy be the restoration of business confidence. The creation of a positive environment for growth represents an indispensable element of national policy.
- existing tax provisions be evaluated to ensure that they do not interfere with the essential objective of promoting investment in new productive capacity, and new incentives be introduced to reward risk taking and entrepreneurship.

The problem of economic adjustment is not unique to Canada. However, the problem of adapting to structural change and the magnitude of the adaptation required appears to be greater in Canada than most other countries:

- The widely dispersed nature of Canada's population and the cultural and distinct occupational barriers to labour mobility make it difficult to achieve the same level of labour market efficiency as in other countries.
- A large element of Canada's industrial structure consists of branch plant operations. Built behind high tariff walls, these serve primarily the Canadian market. Lower tariffs have forced many of these companies to restructure and look for new reasons for existence.
- Canadian industry tends to rely heavily on mature technology. Spending on R & D amounts to only 1.2 percent of GNP, far below the level of most industrialized countries.
- Trade related changes will be reinforced by pressures from other areas (e.g. slow growth, technology, higher energy costs). Canada has not yet fully adapted its economy to world oil prices.

While the adjustment challenge is substantial on a national basis, it is compounded by new locational considerations. Previously, structural change has tended to be a regional phenomenon, confined to certain well-defined communities and regions. In the future, the geographic basis of adjustment will likely broaden. This changing pattern will require a reassessment of Canada's own industrial programs. Much of the adjustment will be taking place outside areas presently designated for regional development and those arrangements such as GDA and RDIA, which serve as the primary conduits for adjustment assistance. Ontario recommends that:

- the federal government re-examine the full range of its regional development and industrial assistance programs to ensure that these are relevant for and equipped to handle the very extensive nature of the adjustment problems facing Canada.
- a National Industrial Development Program should be established to provide financing to Canadian firms for investment required to modernize and take advantage of new market opportunities. Such an institution would complement financing available from other institutions, which have been slow to develop lending programs and instruments tailored to the special needs of adjustment.

In Ontario's view any forward looking set of policies to promote institutional flexibility must be carefully co-ordinated and incorporate a variety of factors. There is, for example, little point in attempting to create a non-inflationary environment conducive to adjustment if the needed flexibility is inhibited by micro-economic factors that act to maintain the status quo. Some of the principle elements of policy attention at the micro level are as follows:

- *Innovation*—the development of new products and processes must be encouraged. Companies must shift their competitive strategies toward the front end of the product life cycle.

- *Productivity*—Enhanced efficiency in the utilization of resources will be essential for many Canadian industries to maintain and enhance their competitive positions in world markets.
- *Regulations*—Government directions and policies must continue to be examined to ensure that these do not result in the misallocation of resources and seek to reinforce rather than circumvent the operation of market forces.
- *Manpower training and mobility*—Resources allocated for on the job training programs must be increased. Labour market information must be enhanced and other measures introduced to improve mobility.

The creation of a positive environment for adjustment constitutes an essential element of any trade strategy. Ontario believes that steps to encourage institutional flexibility and ensure that the burden of adjustment is shared equitably must be introduced. These steps must be taken if Canada is to maintain its position of economic leadership in an increasingly competitive and changing world.

VI STRENGTHENING EXISTING BILATERAL RELATIONS AND CAPTURING NEW MARKETS

The growing geographical diversity of opportunities represents a challenge for Canadian firms selling, or interested in selling, abroad and for Canadian trade policy. Whereas in the past, Canadian exports and trade policy focussed primarily on the United States, future exports of Canadian goods and services should increase most rapidly in non-traditional markets such as the Pacific Rim. During the 1980s, efforts to achieve a foothold in these new markets will be significant elements of Canadian trade policy. These efforts must be simultaneously reinforced by steps to maintain and expand traditional trading relationships.

There are certain themes that are common to all our bilateral trading relations and that relate to both the strengthening of existing commercial relations with our major partners, particularly the United States, the European Community and Japan, and to the capturing of new markets in the developing world. One such theme is the question of national image and how it can be developed to our best advantage. For too long, Canada's image in most countries has been that of a producer of natural resources—the traditional "hewer of wood and drawer of water." In countries like Japan and in the European Community, this has clearly hampered our ability to create an interest in our manufactured goods. And in many countries in the developing world, where market opportunities are now emerging, we simply have no clearly defined image at all.

A major theme of our trade policy, then, must be the creation of an image that will be more conducive to the promotion of exports and economic ties. We cannot rest on the laurels of our international political reputation. The success of West Germany and Japan in the postwar period demonstrates that a reputation as an international "good guy" is not what sells products in the marketplace. Rather, we must stress our technological sophistication, creating an image of Canada as an advanced industrial nation dedicated to innovation, quality and design. Ontario, therefore, recommends that:

- the federal government initiate a concerted set of programs, mechanisms and activities to develop a more *concrete image* of Canada as a valued trading and technological partner.

A second theme that must underlie all our trading relations is the need to develop policies that reduce tensions with our trading partners quickly, before these escalate to the point where they damage economic relations. The situation in which Canada finds itself with the United States, where tensions over Canadian policies directed toward foreign investment have almost certainly disrupted investment flows, should not be allowed to occur again. Similarly the action that Canada recently took regarding Japanese auto imports would probably not have been necessary if more formal and productive mechanisms for economic discussion, planning and problem solving existed. One type of mechanism that could be useful both in easing and preventing trade related tensions and in developing trade and investment links would be bilateral sectoral arrangements. Ontario, therefore, recommends that:

- the federal government place a high priority on the development of bilateral mechanisms to address, diffuse and resolve tensions;

- more frequently than in the past, the federal government be prepared to resort to multilateral mechanisms to resolve disputes when bilateral mechanisms fail;
- the federal government, in consultation with the provinces, explore opportunities for bilateral sectoral co-operation with trading partners, to promote trade and investment links and joint economic development in these sectors.

Improving Specific Bilateral Relations

Moving to particular issues and approaches that must be stressed in our bilateral relations, clearly the resolution of tensions with the *United States* is especially important, where the extent of economic ties makes tensions more likely and their effects more damaging. The failure of federal policy vis-a-vis the United States has been the failure to foster an awareness in the United States of the unique commonality of interests and shared benefits that the United States and Canada enjoy on an enormous range of economic issues, even where both countries take necessarily different approaches. To achieve this awareness and understanding, serious consideration should be given to broadening the co-operative and consultative mechanisms between the United States and Canada, to improving the dialogue at all levels and to fostering an improved capability to co-ordinate government policies and business strategies. To this end, Ontario recommends that:

- the federal government study the idea of establishing Canada-U.S. tripartite committees in a number of key sectors, within the context of a framework agreement, to improve understanding and consultation on economic issues;
- these committees establish a timetable of frequent, highly visible meetings and undertake a concrete work program with the support of a permanent secretariat.

Over the years, the subject of a free trade arrangement with the United States has received considerable attention. The group to recommend such a course most recently is the Senate Committee on Foreign Affairs. For a variety of reasons, Ontario believes that relations between the two countries are unlikely to evolve in the direction of a free trade agreement in the foreseeable future. From a Canadian perspective, many unanswered questions remain and the ramifications of free trade for our economic and political sovereignty are not fully understood. In short, total free trade appears to be an unrealizable and quite likely undesirable option.

However, other avenues exist for securing improved access for Canadian firms to the U.S. market. It is recommended that these be the subject of further study:

- Canada and the United States should explore the possibility for arrangements to promote an expanded level of bilateral trade in specific industrial sectors. Candidates for such study include the petrochemical, urban transit and steel industries.

As far as Canada's relations with the *European Community* are concerned, steps must be taken to develop a more forward looking, pro-active strategy toward the European Community to realize the potential for growth in economic relations that clearly exists. Investment attraction and co-operation in third markets should be key elements of this strategy. Ontario recommends that:

- Canada take advantage of increased European investment activity abroad by upgrading efforts to attract investment in manufacturing;
- Canada also take advantage of strong E.C. ties and preferential arrangements with a number of countries in Africa, the Middle East,

Eastern Europe and Scandinavia by pursuing technological and commercial co-operation with the European Community in these third markets.

The major focus of Canada's trade policy toward *Japan* must be a continued push for market liberalization in that country, coupled with steps to ensure that Canada is positioned to take advantage of openings as they occur. Recent market liberalization moves by the Japanese represent a symbolic admission that their market is a closed one and a commitment to bring about changes. But Canadian exporters still experience a great deal of frustration in their attempts to export to Japan. There is little doubt that a massive alteration of both attitudes and structures—including a liberalization of the distribution system and the capital markets—is required before the Japanese market can be considered open. Therefore, Ontario recommends that:

- the federal government continue to urge Japan to take concrete steps to increase imports of Canadian manufactured goods, thereby helping to reduce the frustration and cynicism that Canadian business feels toward Japan and creating the basis for a healthy, long term economic relationship.

In pursuing growing opportunities for exports in the *developing world,* it is crucial that Canada develop trade policies toward these countries that are as forward looking as possible. The tensions that currently exist over disruptive imports and threats to Canada's traditional industries must be resolved in a context that stresses future expansion of mutually beneficial economic relations. Ontario recommends that:

- Canadian policy toward the developing world continue to be based on the recognition that Canada must maintain open markets to these countries in order to realize export opportunities;
- the federal government seek to reduce the unpredictability of relations with these countries by working in international fora to establish an accepted set of rules and mechanisms of problem resolution to govern relations. This becomes especially critical when investment, licensing and joint venturing are considered.

PROGRAM SUPPORT

VII

The export challenge for Canada during the coming decade lies in expanding our export of manufactured products and internationally tradeable services. In contrast to our exports of resource-based or agricultural products, success in exporting manufactured goods is dependent on much more than efficient production, delivery and price competitiveness. Increasingly, international competitiveness is related to such non-price factors as product quality, marketing and financing.

To date, federal programs have not been adequate in promoting these capabilities and strengths in Canada, a deficiency that has been clearly reflected in the drop in Canada's share of internationally traded end products. This deficiency will have to be remedied if Canada's new trade policy thrust in the 1980s is to be anything more than rhetoric.

i) The need to develop internationally traded products

Too much of Canada's manufacturing production is in mature products facing either secular decline or increasing third world competition. The number and range of unique Canadian-designed and developed manufactured goods is very limited. If a national export policy is to have a wider impact on domestic production and employment, expanding the range of Canadian exportable products should be a priority.

This will require an ability to use our strengths and experience to establish competitive niches as the bases for future growth. Obviously, Canada cannot compete head on with the trading giants in a broad range of sectors. But there are particular areas, and products, where we have developed internationally respected expertise, and where we have competitive strengths that can be utilized and built upon.

A major component of Canada's manufacturing sector is foreign manufacturing subsidiaries. These firms should focus efforts on upgrading Canada's product capability. The strengths of these firms in terms of access to technology, financing and know-how should be utilized as the basis of a global product mandate, or specialized mission strategy, that emphasizes production in Canada for world markets.

Ontario recommends that the following federal commitments be undertaken to expand Canada's production of exportable goods:

- provide encouragement to domestic manufacturers, particularly small firms, to undertake more R & D, through tax incentives and grants;
- provide meaningful product design assistance aimed at foreign markets. In particular, consideration should be given to the establishment of an autonomous National Institute of Design to stimulate awareness and provide advice and assistance in design problems;
- provide leadership in promoting the Global Product Mandate strategy among foreign subsidiaries.

ii) The need to develop export marketing expertise

By and large, Canada has failed to develop the priority commitment to exporting that is essential for future industrial growth. The emphasis on the export of resources, the domestic market orientation of the foreign-owned manufacturing sector and the failure of the Canadian-owned small business sector to make a sustained effort to sell in foreign markets beyond the United States have meant that Canadian business has not developed the marketing expertise required to succeed in increasingly competitive international markets.

Federal export support programs must be geared to encouraging firms to place a high priority on exporting and marketing. This is important not only for manufacturing firms, particularly smaller firms that lack the resources to rapidly develop marketing and after sales service capabilities for foreign markets, but also for service firms.

Taking advantage of Canadian expertise in resource development and infrastructure development and capturing the growing international market for capital goods and related services will require a strong commitment to marketing by both government and industry. Existing federal programs that have enjoyed some success in promoting service exports—in particular CIDA's C.P.P.F. program—should be re-evaluated to determine how service exports can be more closely tied to a growth in capital goods exports. Steps must also be taken to overcome the limitations that the small size of many Canadian firms creates in terms of ability to provide a prime contractor capability on major turnkey projects. An organization that goes beyond the present mandate and ability of the Canadian Commercial Corporation, to bring together a variety of firms for large capital projects and that is able to take an active role in creating an international image of Canadian capabilities, is called for.

In seeking expanded exports of both capital and other manufactured and processed exports, government export support programs must take into account the nature of new markets that Canadian firms will be seeking to penetrate, in the Pacific Rim or elsewhere, where long lead times and high front end costs often act as significant barriers to market development.

A key element in Canada's ability to penetrate new markets, such as those in the developing world, and to increase sales of manufactured goods to trading partners such as Japan and the European Community, will be our ability to create a "commercial image" of Canada and Canadian products. The success of countries like Japan and West Germany in promoting their exports has been based in part on their ability to create a national dedication to quality products and then to translate this dedication into an international image. Canadian business must become more internationally oriented and, in turn, our international relations must become more business oriented. Ontario recommends that:

- an effective information system on world trade opportunities and Canadian capabilities be established, with data developed, exchanged and shared by the federal and provincial governments and the private sector;
- appropriate funding and ongoing priority be given to the trade commissioner service, and the commercial emphasis maintained;
- the speed, quality and relevance of foreign market intelligence delivered by Canada's foreign posts be improved, particularly in non-traditional markets;
- specific geographic targets be set for specific industries, and public programs (trade missions, trade fair participation, etc.) and promotion campaigns be focussed on these targets;
- federal programs such as PEMD be made more responsive to the needs of potential small and innovative exporters by introducing less rigorous and more flexible application procedures;

- PEMD also be reviewed to ensure that it offers adequate support for market entry into difficult markets such as Japan;
- federal support be made available to strengthen the private sector trading houses, to make these more a central element of the government's export promotion initiatives. In particular, efforts must focus on encouraging consolidation and integration among trading houses to allow them to achieve more effective marketing power internationally and to provide a more complete range of export services;
- a national program be developed to enable small firms to enter into co-operative export arrangements by making consortia export managers available to them on a shared cost basis;
- service industries have full access to all industrial development and export promotion services;
- a new agency, the Canadian International Corporation, be established to ensure an increased role for Canadian firms in foreign public and private sector capital projects. The new corporation would absorb the functions of the Canadian Commercial Corporation and would assist in the formation of consortia by Canadian companies and serve as an agent for negotiating government-to-government contracts.

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iii) The need for a competitive tax environment and export financing

A national priority accorded to export stimulation must be reflected in tax policies and in the level of financing support available to exporting firms. For Canadian firms to be competitive abroad they must have the benefit of tax policies that reward export efforts and of financing support at least equivalent to that available to our competitors.

A number of our competitors have pursued taxation policies that reward exporting activity, such as the U.S. DISC program, and the French, Dutch and Belgian tax regimes, which treat foreign corporate income very favourably. Ontario recommends that:

- the federal government should review the tax structure to ensure that Canadian exports of manufactured goods and services are not disadvantaged relative to those of our competitors in international markets.

In spite of limited recent improvements to federal export financing programs (such as the provision of credit mixte and the introduction of some new instruments by EDC), financing is still a major burden for Canadian exporters in the face of the aggressive and escalating international competition in export financing. To alleviate this burden, Ontario recommends that:

- Canada should continue to strongly support the U.S. position, in the OECD export credit discussions, to eliminate or minimize the counter productive competition in export financing subsidies;
- until international agreement is achieved, steps should be taken to ensure that Canadian firms have access to fully competitive export financing services from the federal government, with respect to coverage, rates and terms.

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iv) The need for a co-ordinated and integrated approach

The key to the success of a national export policy will be the degree to which public and private resources are utilized to work toward the same goals. Business and government must become more adept at combining their political, financial and bargaining skills to succeed in the international marketplace.

VIII FEDERAL-PROVINCIAL RELATIONS

Federal trade policies and actions by foreign governments or companies that affect Canadian interests can have an important bearing on key provincial industrial sectors. They can also influence provincial policies and programs relating to such areas as innovation, manpower training and marketing. It is, therefore, desirable that federal and provincial policies and programs operate in a co-ordinated and mutually reinforcing fashion. Actions that are overlapping or contradictory threaten to amplify the constraints imposed by a small domestic market while adding significantly to the cost of trade development efforts.

Trade policy has traditionally been a source of tension within Canada. In Western Canada, the tariff has been viewed with suspicion and, at times, hostility. Legitimate differences of regional viewpoint will always exist. Only by establishing the communicative channels needed to bridge these differences can the development of policies that serve the interests of all Canadians be ensured. For these reasons Ontario believes that:

- adequate federal-provincial channels for information transmission, consultation, decision-making and action are essential both on the program and the policy side if we are to effectively implement an overall trade strategy that meets Canadian needs.

To be effective in the international marketplace, Canada must very clearly be seen to speak with one voice. But for that voice to be credible, there has to be meaningful input from the provinces. Ontario recognizes and acknowledges the efforts that the federal government has made to involve the provinces in its trade policy decision-making process. These include the Federal-Provincial Committee on Trade Relations established two years ago, and the more recent federal-provincial meeting of trade ministers. The preparation of the present federal document, *Trade Policy for the 1980s,* also has been utilized as an opportunity to obtain provincial input on a crucial topic.

But despite the existence of these channels, Ontario believes that, as discussions of trade policy expand to include areas of critical importance to the province or issues under provincial control and as both levels of government expand the resources devoted to trade promotion at the program level, present institutional mechanisms must be strengthened to permit the provinces to play a more active role. In particular:

- existing federal-provincial meetings on trade should evolve from information exchange, briefing-debriefing sessions to fora for accommodation, consensus-building and agreement on goals and directions. In some instances, joint policy decision-making should be undertaken.

The chief trade policy issues of the 1980s will be in areas where provincial competence and jurisdiction are considerable—areas such as services, safeguards, technology, procurement policy and agriculture. Thus, mechanisms must be strengthened so as not to become overburdened by discussions around this new set of trade issues. For example, expansion of the existing GATT framework into areas

such as procurement by sub-national levels of government will lead to negotiations on subjects falling under direct provincial control. Complete involvement of the provinces and establishment of an appropriate intergovernmental forum and mechanism will, therefore, be necessary. For example, Ontario recommends that:

- the recent federal-provincial trade ministers' meeting should be institutionalized and made a regular feature of federal-provincial relations;
- the federal-provincial Trade Relations Committee consider focusing on the multilateral dimension of Canada's trade—the GATT, OECD, the interconnections between major economic blocs, links with the developing world and trade-aid issues.

Policy matters concerning the European Community and Japan could be discussed primarily in existing fora. In addition, given the obvious importance of the U.S. relationship for Ontario and other provinces, Ontario recommends that:

- a federal-provincial subcommittee be struck to "review existing arrangements for consultation with the U.S. with a view to strengthening them as necessary," as was agreed by trade ministers in the June 21, 1982, communique.

Finally, given the need by all governments to provide a full range of assistance to Canadian exporters on a cost-effective basis:

- federal and provincial roles should be reviewed and co-ordinated to the greatest extent possible, to reduce the potential for overlap of trade promotion services.